Absa Bank Plc – Q3'2024
22nd November, 2024

Below is a summary of Absa Bank Kenya Plc Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Government Securities	77.7	72.4	(6.7%)
Net Loans and Advances	330.9	311.5	(5.9%)
Total Assets	**504.9**	**484.4**	**(4.1%)**
Customer Deposits	354.3	351.8	(0.7%)
Deposit per Branch	4.7	4.1	(11.2%)
Total Liabilities	**439.6**	**407.0**	**(7.4%)**
Shareholder's Funds	**65.3**	**77.3**	**18.4%**

Balance Sheet Ratios	Q3'2023	Q3'2024	% points change
Loan to Deposit Ratio	93.4%	88.5%	(4.9%)
Govt Securities to Deposit ratio	21.9%	20.6%	(1.3%)
Return on average equity	25.8%	26.4%	0.6%
Return on average assets	3.3%	3.8%	0.5%

Income Statement	Q3'2023	Q3'2024	y/y change
Net Interest Income	29.3	34.5	17.7%
Net non-Interest Income	10.8	12.2	13.0%
Total Operating income	**40.2**	**46.8**	**16.5%**
Loan Loss provision	(6.8)	(8.0)	18.7%
Total Operating expenses	**(22.3)**	**(25.7)**	**15.2%**
Profit before tax	17.8	21.1	18.1%
Profit after tax	**12.3**	**14.7**	**19.8%**
Core EPS	**2.3**	**2.7**	**19.8%**

Income Statement Ratios	Q3'2023	Q3'2024	% points change
Yield from interest-earning assets	11.7%	14.8%	3.1%
Cost of funding	3.7%	5.0%	1.3%
Net Interest Spread	2.7%	3.9%	1.2%
Net Interest Margin	8.8%	10.5%	1.6%
Cost of Risk	16.8%	17.2%	0.3%
Net Interest Income as % of operating income	73.0%	73.8%	0.8%
Non-Funded Income as a % of operating income	27.0%	26.2%	(0.8%)
Cost to Income	55.6%	55.0%	(0.6%)
Cost to Income (Without LLPs)	38.7%	37.8%	(0.9%)

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	16.5%	19.1%	2.6%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**8.5%**	**11.1%**	**2.6%**
Core Capital/Total Risk Weighted Assets	13.4%	15.6%	2.2%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**2.9%**	**5.1%**	**2.2%**
Total Capital/Total Risk Weighted Assets	17.7%	19.4%	1.7%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.2%**	**4.9%**	**1.7%**
Liquidity Ratio	29.8%	38.1%	8.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**9.8%**	**18.1%**	**8.3%**

Income Statement

- Core earnings per share increased by 19.8% to Kshs 2.7, from Kshs 2.3 in Q3’2023, mainly driven by the 16.5% increase in total operating income to Kshs 46.8 bn, from Kshs 40.2 bn in Q3’2023 which outpaced the 15.2% increase in total operating expenses to Kshs 25.7 bn, from Kshs 22.3 bn in Q3’2023,
- The 16.5% growth in total operating income was mainly driven by a 17.7% growth in Net Interest Income to Kshs 34.5 bn, from Kshs 29.3 bn in Q3’2023, coupled with a 13.0% growth in Non funded Income (NFI) to Kshs 12.2 bn, from Kshs 10.8 bn in Q3’2023,
- Interest income grew by 24.3% to Kshs 48.6 bn from Kshs 39.1 bn in Q3’2023, mainly driven by a 187.7% growth in interest income from deposits and placements to Kshs 1.5 bn, from Kshs 0.5 bn in Q3’2023 coupled with a 28.4% increase in interest income from loans and advances to Kshs 40.6 bn from Kshs 31.6 bn in Q3’2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 3.1% points to 14.8% from 11.7% recorded in Q3’2023, mainly attributable to the 25.8% growth in trailing interest income to Kshs 63.8 bn, from Kshs 50.7 bn in Q3’2023 compared to the 0.5% decrease in average interest earning assets to Kshs 432.1 bn, from Kshs 434.4 bn in Q3’2023,
- Interest expenses rose by 43.8% to Kshs 14.1 bn, from Kshs 9.8 bn in Q3’2023, driven by 81.1% increase in other interest expenses to Kshs 0.2 bn, from Kshs 0.1 bn in Q3’2023, coupled with a 67.8% increase in interest expense from customer deposits to Kshs 13.4 bn in Q3’2024, from Kshs 8.0 bn recorded in Q3’2023. The growth in interest expense was however weighed down by a 69.3% decrease in interest expense from deposits and placements to Kshs 0.5 bn, from Kshs 1.7 bn in Q3’2023. Consequently, Cost of funds (COF) increased by 1.3% points to 5.0%, from 3.7% recorded in Q3’2023, owing to a faster 50.5% increase in Trailing interest expense to Kshs 18.5bn, from Kshs 12.3 bn in Q3’2023, compared to the 10.3% increase in average interest bearing liabilities to Kshs 369.5 bn from Kshs 334.9 bn in Q3’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.6% points to 10.5% from 8.8% in Q3’2023, attributable to the 17.9% growth in trailing net interest income to Kshs 45.2 bn, from Kshs 38.4 bn recorded in Q3’2023, which outpaced the 0.5% decrease in average interest earning assets to Kshs 432.1 bn, from Kshs 434.4 bn in Q3’2023,
- Non-Funded Income (NFI) increased by 13.0% to Kshs 12.2 bn from Kshs 10.8 bn in Q3’2023, mainly driven by a 4.1% increase in fees and commissions to 1.2 bn from 1.1 bn in Q3’2023, however, weighed down by the 2.1% decrease in the foreign exchange trading income to Kshs 4.8 bn from Kshs 4.9 bn in Q3’2023, highlighting the bank’s reduced foreign exchange margins. The revenue mix shifted to 74:26 from 73:27 in Q3’2023 for the funded to non-funded income owing to the 17.7% growth in Funded Income faster than the 13.0% growth in the Non Funded Income,
- Total operating expenses increased by 15.2% to Kshs 25.7 bn from Kshs 22.3 bn in Q3’2023, driven by a 18.7% increase in loan loss provisions to Kshs 8.0 bn from Kshs 6.8 bn in Q3’2023 as well as the 13.8% increase in staff costs to Kshs 9.8 bn from Kshs 8.6 bn in Q3’2023 coupled with the 13.6% increase in other operating expenses to Kshs 7.9 bn from Kshs 6.9 bn in Q3’2023. The increase in provisioning comes amid the increased credit risk as a result of deteroriarated business environment during the period as evidenced by the average Q3’2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3’2023,
- Cost to Income Ratio (CIR) decreased to 55.0% from 55.6% in Q3’2023, owing to the 16.5% increase in total operating income, which outpaced the 15.2% increase in total operating expenses. Similarly, CIR without LLP decreased by 0.9% points to 37.8% from 38.7% recorded in Q3’2023, and,
- Profit before tax increased by 18.1% to Kshs 21.1 bn from Kshs 17.8 bn in Q3’2023, with effective tax rate decreasing to 30.0% in Q3’2024 from 31.0% in Q3’2023. As such, profit after tax increased by 19.8% to Kshs 14.7 bn, from Kshs 12.3 bn in Q3’2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 4.1% to Kshs 484.4 bn, from Kshs 504.9 bn in Q3'2023, driven by a 6.7% decrease in investment in government securities to Kshs 72.4 bn from Kshs 77.7 bn in Q3'2023. The performance was further weighed down by a 5.9% loan book contraction to Kshs 311.5 bn, from Kshs 330.9 bn in Q3'2023,
- Total liabilities declined by 7.4% to Kshs 407.0 bn from Kshs 439.6 bn in Q3'2023, driven by a 62.5% decrease in placements to Kshs 6.8 bn, from Kshs 18.1 bn in Q3'2023, coupled with a 16.5% decrease in borrowings to 3.6 bn, from Kshs 4.4 bn recorded in Q3'2023. The decline in total liabilities was further weighed down by the 0.7% decrease in customer deposits to Kshs 351.3 bn, from Kshs 354.3 bn in Q3'2023. With 85 branches countrywide compared to 76 branches in Q3'2023, deposits per branch decreased by 11.2% to Kshs 4.1 bn, from Kshs 4.7 bn in Q3'2023,
- The slower 0.7% decrease in customer deposits as compared to the 5.9% decline in loans led to a 4.9% points decline in the loan to deposits ratio to 88.5%, from 93.4% in Q3'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.6% in Q3'2024, from 9.8% in Q3'2023, attributable to the 23.5% increase in gross non-performing loans to Kshs 42.7 bn, from Kshs 34.5 bn in Q3'2023, relative to the 4.2% decrease in gross loans to Kshs 339.3 bn, from Kshs 354.2 bn recorded in Q3'2023,
- General Provisions (LLP) increased by 16.0% to Kshs 20.8 bn in Q3'2024 from Kshs 17.9 bn in Q3'2023. The NPL coverage decreased to 65.3% in Q3'2024, from 67.4% in Q3'2023, attributable to the 23.5% growth in gross non-performing loans to Kshs 42.7 bn from Kshs 34.5 bn recorded in Q3'2023, which outpaced the 16.0% increase in general provisions to Kshs 20.8 bn, from Kshs 17.9 bn in Q3'2023.
- Shareholders' funds increased by 18.4% to Kshs 77.3 bn in Q3'2024, from Kshs 65.3 bn in Q3'2023, supported by a 15.5% increase in retained earnings to Kshs 77.3 bn, from Kshs 66.9 bn in Q3'2023,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 15.6%, 5.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.4% exceeding the statutory requirement of 14.5% by 4.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.8%, and a Return on Average Equity (ROaE) of 26.4%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share increased by 19.8% to Kshs 2.7, from Kshs 2.3 in Q3'2023, mainly driven by the 16.5% increase in total operating income to Kshs 46.8 bn, from Kshs 40.2 bn in Q3'2023 which outpaced the 15.2% increase in total operating expenses to Kshs 25.7 bn, from Kshs 22.3 bn in Q3'2023.
2. **Declined asset quality –** The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.6% in Q3'2024, from 9.8% in Q3'2023, attributable to the 23.5% increase in gross non-performing loans to Kshs 42.7 bn, from Kshs 34.5 bn in Q3'2023, relative to the 4.2% decrease in gross loans to Kshs 339.3 bn, from Kshs 354.2 bn recorded in Q3'2023.
3. **Decreased Lending –** The bank's loan book recorded a contraction of 5.9% to Kshs 311.5 bn, from Kshs 330.9 bn in Q3'2023.

Going forward, the factors that would drive the bank's growth would be:

- **Continued Digitization -** The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience. This expansion in digital distribution has led to an increase in digital loan disbursements and growth in consumer business through the Timiza digital platform, significantly contributing to its financial performance. Additionally, the lender's subsidiary divisions, particularly asset management and insurance, not only diversifys the bank's revenue streams but also provide additional value-added services to customers, enhancing overall client retention and satisfaction.

Valuation Summary

- We are of the view that Absa Bank Kenya is a "Buy" with a target price of Kshs 18.9 representing an upside of

23.4%, from the current price of Kshs 15.4 as of 22nd November 2024.

- Absa Bank Kenya is currently trading at a P/TBV of 1.2x and a P/E of 4.7x vs an industry average of 0.9x and 4.2x respectively.